

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.06)

Unit Name* Village of Pigeon	County* HURON	Type* VILLAGE	MuniCode* 32-3-050
Opinion Date-Use Calendar* Aug 19, 2008	Audit Submitted-Use Calendar* Aug 27, 2008	Fiscal Year End Month* 02	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin)?
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> ? \$ 687,831.00
General Fund Expenditure:	<input type="checkbox"/> ? \$ 619,584.00
Major Fund Deficit Amount:	\$ 224,826.00

General Fund Balance:	<input type="checkbox"/> ? \$ 123,872.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> ? \$ 2,185,373.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Brian	Last Name* Hazard	Ten Digit License Number* 1101014007		
CPA Street Address* 7274 Hartley Street	City* Pigeon	State* MI	Zip Code* 48755	Telephone* +1 (989) 453-3122
CPA Firm Name* Nietzke & Faupel, P.C.	Unit's Street Address* 29 S Main Street	Unit's City* Pigeon	Unit's Zip* 48755	

**VILLAGE OF PIGEON
PIGEON, MICHIGAN
HURON COUNTY**

**FINANCIAL REPORT
FEBRUARY 29, 2008**

THIS PAGE INTENTIONALLY LEFT BLANK

VILLAGE OF PIGEON, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
REPORT OF INDEPENDENT AUDITORS	i - ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii – x
BASIC FINANCIAL STATEMENTS	1
Government-Wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements:	
Balance Sheet – Governmental Funds	4
Reconciliation of Governmental Fund Balances to Governmental Activities Net Assets	5
Statement of Revenue, Expenditures and Change in Fund Balances – Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Net Assets – Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Notes to the Financial Statements	11 – 23
REQUIRED SUPPLEMENTAL INFORMATION	24
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – General Fund	25 – 28
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – Major Street Fund	29
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – Local Street Fund	30

VILLAGE OF PIGEON, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
SUPPLEMENTAL INFORMATION	31
Nonmajor Governmental Funds:	
Combining Balance Sheet	32
Combining Statement of Revenue, Expenditures and Change in Fund Balance	33
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – Trunkline Fund	34
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – Recreation Fund	35
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – Michigan Department of Transportation Debt Service Fund	36
Statement of Revenue, Expenditures and Change in Fund Balance – Budget to Actual – Debt Service Fund	37
Proprietary Fund Types:	
Schedule of Revenue, Expenses and Change in Net Assets – Budget to Actual – Sewer Operating Fund	38
Schedule of Revenue, Expenses and Change in Net Assets – Budget to Actual – Water Operating Fund	39
Schedule of Water Supply Revenue Bonds Series 1999	40 - 41
Schedule of Sanitary Sewage Disposal System Revenue Bonds Series 2004	42 - 43
Schedule of General Obligation Unlimited Tax Bonds Series 2005	44
Schedule of Capital Improvement Bonds Series 2006	45
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	46 - 47
Schedule of Findings	48 - 51



Nietzke & Faupel, PC

Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA

Consultant: Allan W. Nietzke, CPA

Principals: Eugene R. Gascho, COO

Brian V. Hazard, CPA JoAnn E. Lakle, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

REPORT OF INDEPENDENT AUDITORS

To The Honorable Village Council
Village of Pigeon
Pigeon, Michigan 48755

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pigeon, Michigan, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Pigeon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pigeon, Michigan, as of February 29, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2008, on our consideration of the Village of Pigeon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 25 through 30, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

- i -

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

Report of Independent Auditors (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Pigeon, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel, PC

NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

August 19, 2008

Management's Discussion and Analysis

As the management of the Village of Pigeon, Michigan, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the Village exceed its liabilities at the close of the most recent fiscal year by \$6,287,940 (net assets). Of this amount, \$394,844 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$(98,299)
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$518,326. Over 78% (percent) of this total amount or \$405,422 is available for spending at the government's discretion (unrestricted fund balances).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$123,872 or 20% (percent) of the total general fund expenditures.
- The Village's total debt decreased by \$30,405 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Pigeon's basic financial statements. The Village is reporting these financial statements utilizing the reporting structure that all state and local governments must follow. These requirements restructured much of the information that governmental units have presented in the past.

The Village's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government (including administration), public safety, public works and recreation and culture operations. The business-type activities of the Village include the water and sewer operations.

The government-wide financial statements can be found on pages 2 and 3 of the financial report.

Fund financial statements - A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds, and propriety funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village maintains seven individual governmental funds. Information is presented separately, in the governmental fund balance sheet, and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street, and Debt Service Funds, each of which are considered to be major funds. Data from the other three governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided in the financial report to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4 through 7 of the financial report.

Management's Discussion and Analysis

Proprietary Funds - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sanitary sewer and water operations.

The basic proprietary fund financial statements can be found on pages 8 through 10 of the financial report.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 23 of the financial report.

Other information - In addition to the basic financial statements and accompanying notes, the financial report also presents certain required supplementary information concerning the Village's budgetary information for the four major governmental funds. This required supplementary information can be found on pages 25 through 30 of the financial report.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 32 through 45 of the financial report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$6,287,940 at the close of the fiscal year, which is a decrease of \$98,299 or 1.5% from the prior year.

A significant portion of the Village's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The table below shows the Village's net assets as of February 29, 2008.

Management's Discussion and Analysis

Village's Net Assets				
February 29, 2008				
	<u>Governmental</u>	<u>Business</u>	<u>2008</u>	<u>2007</u>
	<u>Activities</u>	<u>Activities</u>		
Current and other assets	\$ 692,474	\$ 30,925	\$ 723,399	\$ 681,088
Capital assets	<u>4,876,345</u>	<u>5,769,932</u>	<u>10,646,277</u>	<u>10,829,495</u>
Total Assets	<u>5,568,819</u>	<u>5,800,857</u>	<u>11,369,676</u>	<u>11,510,583</u>
Long-term liabilities outstanding	2,185,372	2,759,810	4,945,182	4,975,588
Other liabilities	<u>59,217</u>	<u>77,335</u>	<u>136,552</u>	<u>148,756</u>
Total Liabilities	<u>2,244,590</u>	<u>2,837,146</u>	<u>5,081,736</u>	<u>5,124,344</u>
Invested in capital assets, net of related debt	2,711,834	3,010,121	5,721,955	5,877,675
Restricted		171,140	171,140	208,913
Unrestricted	<u>612,395</u>	<u>(217,550)</u>	<u>394,844</u>	<u>299,651</u>
Total net assets	<u>\$ 3,324,229</u>	<u>\$ 2,963,711</u>	<u>\$ 6,287,940</u>	<u>\$ 6,386,239</u>

Of the remaining balance of net assets, approximately 2.7% or \$171,140 is restricted resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$394,844 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances for the governmental activities. However, the business-type activities report an unrestricted deficit of \$(217,550), due to operating losses in the Sewer and Water Funds.

The Village's net assets decreased \$98,299 during the fiscal year.

The table below shows the change in net assets for the fiscal year ended February 29, 2008.

Management's Discussion and Analysis

Village's Change in Net Assets

	February 29,			
	Governmental	Business	2008	2007
	Activities	Activities		
Property taxes	\$ 610,973	\$ 51,393	\$ 662,366	\$ 622,919
State Shared Revenues	225,310		225,310	222,977
Unrestricted investment earnings	578	2,595	3,173	1,038
Miscellaneous	77,665		77,665	32,533
Program revenue:				
Charges for services	52,134	446,443	498,577	458,617
Total revenue	<u>966,660</u>	<u>500,431</u>	<u>1,467,091</u>	<u>1,338,084</u>
Expenses:				
General government	185,164		185,164	190,093
Public safety	124,125		124,125	124,988
Highways and public improvements	361,261		361,261	381,607
Sanitation	52,058		52,058	51,128
Parks and recreation	24,950		24,950	21,964
Interest on long term debt	107,308		107,308	65,940
Unallocated depreciation	21,689		21,689	21,916
Water		459,841	459,841	430,392
Sewer		174,977	174,977	174,507
Total expenses	<u>876,555</u>	<u>634,818</u>	<u>1,511,373</u>	<u>1,462,535</u>
Change in net assets	<u>90,104</u>	<u>(134,388)</u>	<u>(44,284)</u>	<u>(124,451)</u>
Net assets – beginning of year	3,337,508	3,048,731	6,386,239	6,448,030
Prior Period Adjustment	(103,383)	49,368	(54,015)	62,659
Net assets – end of year	<u>\$ 3,324,229</u>	<u>\$ 2,963,711</u>	<u>\$ 6,287,940</u>	<u>\$ 6,386,239</u>

Governmental activities

Governmental activities increased the Village's net assets by \$90,104 or 3% of beginning net assets. The combination of Industrial Facilities Tax Exemptions coming due, an increase in property values at a local castings plant and a slight rise in overall property values helped to increase the Village's governmental net assets.

Business-Type activities

Business-type activities decreased the Village's net assets by \$(134,388) or 4% of beginning net assets. Major reasons for the decrease were due to costs related to the upgrade of the Village's own Water Plant and the replacement of the filters at the Caseville Water plant.

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Village's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year, the unrestricted fund balance of the General Fund was \$123,872. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures; unrestricted fund balance represents 20% of total General Fund expenditures. The fund balance of the Village's General Fund decreased by \$19,355 during the current fiscal year.

The primary funds utilized by the Village for street construction and maintenance are the Major and Local Street Funds. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of \$156,822, an increase of \$66,364 and the Local Street Fund had a fund balance of \$104,636, an increase of \$36,852.

Proprietary funds - The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds at the end of the year amounted to (\$224,826). The Water and Sewer Funds had a decrease in net assets for the year of \$(137,318). Other factors concerning the finances of these two funds have already been addressed in discussion of the Village's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for General fund expenditures were minor in nature and the final budget did not change materially from the original budget.

Budget to actual comparisons for the Village's general fund were mostly favorable, although the overall budget was overspent by \$10,054.

Capital Asset and Debt Administration

Capital assets - The Village's investment in capital assets for its governmental and business-type activities as of February 29, 2008, amounted to \$5,721,955. This investment in capital assets includes land, buildings and improvements, systems, equipment and infrastructure.

The table below shows the Village's Capital assets as of February 29, 2008.

Management's Discussion and Analysis

Village's Capital Assets
(Net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 500,000	\$ 201,000	\$ 701,000
Buildings and improvements	1,220,302	693,533	1,913,835
Equipment	955,986	454,707	1,410,693
Improvements		1,422,773	1,422,773
Infrastructure	6,819,779	5,386,872	12,206,651
Total capital assets	9,496,067	8,158,885	17,654,952
Less: Accumulated depreciation	(4,619,722)	(2,388,954)	(7,008,676)
Capital assets – Net	\$4,876,345	\$5,769,931	\$10,646,276

Additional information on the Village's capital assets can be found in Note 1 on pages 15 through 17 of the financial report.

Long-term debt - At the end of the current fiscal year, the Village had total debt outstanding of \$4,945,183. These amounts are summarized below.

Village's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities	Business-Type Activities	Total
Revenue bonds		\$2,685,000	\$2,685,000
General obligation bonds	\$2,000,000		2,000,000
Accrued compensated absences	20,862		20,862
Lease Payment – Aerators		74,810	74,810
Lease Payment-Sweeper	54,511		54,511
Capital Improvement Bonds	110,000		110,000
Total long-term debt	\$2,185,373	\$2,759,810	\$4,945,183

The Village's total debt decreased during the current fiscal year even with the addition of \$70,000 for the Street Sweeper.

Additional information on the Village's long-term debt can be found in Note 8 on pages 21 through 23 of the financial report.

Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The County's unemployment rate is 7.6 percent, which is comparable to the statewide rate.

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: **Steven Corrion, Village Clerk, 29 S. Main Street, Pigeon, MI 48755.**

BASIC FINANCIAL STATEMENTS

VILLAGE OF PIGEON, MICHIGAN

STATEMENT OF NET ASSETS FEBRUARY 29, 2008

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS - TYPE <u>ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash	\$ 404,750	\$ 85,695	\$ 490,445
Accounts receivable	43,136	62,981	106,117
Due from other governments	16,211		16,211
Internal balances	171,392	(171,392)	-
Inventory		1,963	1,963
Restricted assets:			
Cash		46,140	46,140
Capital assets:			
Land (Non-Depreciable)	500,000	201,000	701,000
Buildings	1,220,302	693,533	1,913,835
Equipment	955,986	454,707	1,410,693
Improvements		1,422,773	1,422,773
Infrastructure	6,819,779	5,386,872	12,206,651
Less accumulated depreciation	(4,619,722)	(2,388,954)	(7,008,676)
Other assets:			
Bond discount - net	17,733		17,733
Bond issue costs - net	39,252	5,538	44,790
TOTAL ASSETS	<u>5,568,819</u>	<u>5,800,857</u>	<u>11,369,676</u>
<u>LIABILITIES</u>			
Accounts payable	14,959	40,911	55,870
Accrued wages payable	6,501		6,501
Accrued payroll liabilities	3,323		3,323
Accrued interest payable	34,434	36,425	70,858
Notes and bonds payable within one year	27,586	60,069	87,655
Accrued compensated absences	20,862		20,862
Notes payable	41,925	50,741	92,666
Revenue bonds payable		2,649,000	2,649,000
General obligation bonds payable	2,095,000		2,095,000
TOTAL LIABILITIES	<u>2,244,590</u>	<u>2,837,146</u>	<u>5,081,736</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	2,711,834	3,010,121	5,721,955
Restricted for:			
Capital projects	-	171,140	171,140
Unrestricted	612,395	(217,550)	394,844
TOTAL NET ASSETS	<u>\$ 3,324,229</u>	<u>\$ 2,963,711</u>	<u>\$ 6,287,940</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF PIGEON, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2008

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSES) REVENUES & CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
<u>Governmental Activities</u>						
General government	\$ 185,164				\$ (185,164)	\$ (185,164)
Public safety	124,125				(124,125)	(124,125)
Highways and public improvements	361,261				(361,261)	(361,261)
Sanitation	52,058	\$ 52,134			76	76
Parks and recreation	24,950				(24,950)	(24,950)
Interest on long-term debt	107,308				(107,308)	(107,308)
Unallocated depreciation	21,689				(21,689)	(21,689)
<u>Total governmental activities</u>	<u>876,555</u>	<u>52,134</u>	<u>-</u>	<u>-</u>	<u>(824,421)</u>	<u>(824,421)</u>
<u>Business-Type Activities</u>						
Water	459,841	314,205			\$ (145,636)	(145,636)
Sewer	174,977	132,238			(42,739)	(42,739)
<u>Total business-type activities</u>	<u>634,818</u>	<u>446,443</u>	<u>-</u>	<u>-</u>	<u>(188,375)</u>	<u>(188,375)</u>
<u>Total Government</u>	<u>\$ 1,511,374</u>	<u>\$ 498,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(188,375)</u>	<u>(1,012,795)</u>
<u>General Revenue:</u>						
Property taxes					51,393	51,393
State shared revenues					225,310	225,310
Unrestricted investment earnings					578	578
Miscellaneous					77,665	77,665
<u>Total general revenues and transfers</u>					<u>914,526</u>	<u>914,526</u>
<u>Change in net assets</u>					<u>90,104</u>	<u>(44,284)</u>
<u>Net assets - beginning of the year</u>					<u>3,337,508</u>	<u>3,048,731</u>
<u>Prior period adjustment</u>					<u>(103,383)</u>	<u>49,368</u>
<u>Net assets - end of the year</u>					<u>\$ 3,324,229</u>	<u>\$ 2,963,711</u>
						<u>\$ 6,287,940</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF PIGEON, MICHIGAN

**BALANCE SHEET - GOVERNMENTAL FUNDS
FEBRUARY 29, 2008**

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>DEBT SERVICE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS						
Cash	\$290,950			\$ 73,016	\$ 40,784	\$ 404,750
Accounts receivable	43,136					43,136
Due from other funds	310,850	\$183,602	\$137,067		51,218	682,738
Due from other governments	550	11,951	3,710			16,211
TOTAL ASSETS	<u>\$645,486</u>	<u>\$195,553</u>	<u>\$140,777</u>	<u>\$ 73,016</u>	<u>\$ 92,003</u>	<u>\$ 1,146,835</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 14,959					\$ 14,959
Accrued wages payable	6,501					6,501
Accrued payroll liabilities	3,323					3,323
Due to other funds	496,830	\$ 38,731	\$ 36,141	\$ 112	\$ 31,911	603,725
TOTAL LIABILITIES	<u>521,613</u>	<u>38,731</u>	<u>36,141</u>	<u>112</u>	<u>31,911</u>	<u>628,508</u>
FUND BALANCES:						
Unreserved, reported in:						
General Fund	123,872					123,872
Special Revenue Funds		156,822	104,636		20,092	281,550
Debt Service Funds				\$ 72,904	40,000	112,904
TOTAL FUND BALANCES	<u>123,872</u>	<u>156,822</u>	<u>104,636</u>	<u>72,904</u>	<u>60,092</u>	<u>518,326</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$645,486</u>	<u>\$195,553</u>	<u>\$140,777</u>	<u>\$ 73,016</u>	<u>\$ 92,003</u>	<u>\$ 1,146,835</u>

VILLAGE OF PIGEON, MICHIGAN

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
FEBRUARY 29, 2008**

Total governmental fund balances	\$ 518,326
---	-------------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$9,496,067 less the accumulated depreciation of \$4,619,722.	4,876,345
--	-----------

Bond issue costs and bond discounts are not reported in the funds.	56,985
--	--------

Internal service fund is not included in the governmental funds.	92,379
--	--------

Proceeds and payments from a capital lease included in the internal service fund are not included in the governmental funds.	(54,511)
---	----------

Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,165,295)
---	-------------

Net assets - governmental activities	<u>\$ 3,324,229</u>
---	----------------------------

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>DEBT SERVICE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:						
Taxes	\$ 428,770		\$ 86,777	\$ 109,661		\$ 605,207
Licenses and permits	525					525
Intergovernmental	119,304	\$ 61,386	25,800		\$ 19,594	226,085
Charges for services	55,625					55,625
Interest and dividends				110		110
Fines and other	2,786					2,786
Administration fee	10,750					10,750
Contributions	29,277					29,277
Miscellaneous	40,793				500	41,294
TOTAL REVENUE	<u>687,831</u>	<u>61,386</u>	<u>92,577</u>	<u>109,771</u>	<u>20,094</u>	<u>971,660</u>
EXPENDITURES:						
Current:						
Legislative	13,192					13,192
General government	224,798					224,798
Buildings & grounds	44,138					44,138
Streets		41,523	65,725		19,508	126,756
Recreation					14,958	14,958
Police	120,740					120,740
Public works	166,850					166,850
Storm drains	1,534					1,534
Capital outlay	35,342					35,342
Debt service:						
Principal	5,135				20,000	25,135
Interest and fiscal charges	7,056			99,307	620	107,783
TOTAL EXPENDITURES	<u>619,584</u>	<u>41,523</u>	<u>65,725</u>	<u>99,307</u>	<u>55,086</u>	<u>881,225</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>68,247</u>	<u>19,864</u>	<u>26,852</u>	<u>10,464</u>	<u>(34,992)</u>	<u>90,435</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in		46,500	10,000		31,102	87,602
Operating transfers out	(87,602)					(87,602)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(87,602)</u>	<u>46,500</u>	<u>10,000</u>		<u>31,102</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(10,355)</u>	<u>66,364</u>	<u>36,852</u>	<u>10,464</u>	<u>(3,890)</u>	<u>90,435</u>
FUND BALANCE - BEGINNING	<u>143,227</u>	<u>90,458</u>	<u>67,784</u>	<u>62,440</u>	<u>63,983</u>	<u>427,892</u>
FUND BALANCE - ENDING	<u>\$ 123,872</u>	<u>\$ 156,822</u>	<u>\$ 104,636</u>	<u>\$ 72,904</u>	<u>\$ 60,092</u>	<u>\$ 518,320</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF PIGEON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2008**

Net change in fund balances - governmental funds	\$ 90,435
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the *Statement of Activities*, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	76,000	
Depreciation expense	<u>(117,916)</u>	
		(41,916)

The net revenue of certain activities of equipment rental is reported with governmental activities.	15,946
---	--------

Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities.	25,000
--	--------

Accrued interest on long-term debt is an expenditure in the statement of activities, but not in the governmental funds.	476
---	-----

Amortization of bond discounts and bond issue costs are expenses in the statement of activities, but not in the governmental funds.	(2,742)
---	---------

Accrued compensated absences is an expenditure in the statement of activities, but not in the governmental funds.	2,906
---	-------

Change in net assets - governmental activities	<u>\$ 90,104</u>
--	------------------

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
FEBRUARY 29, 2008**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
ASSETS	SEWER	WATER	TOTALS	
CURRENT ASSETS:				
Cash	\$ 39,352	\$ 46,343	\$ 85,695	
Due from other funds	125,727	26,079	151,806	\$ 148,018
Accounts receivable	19,824	43,157	62,981	
Inventory		1,563	1,983	
TOTAL CURRENT ASSETS	184,903	117,542	302,445	148,018
RESTRICTED ASSETS:				
Cash		46,140	46,140	
TOTAL RESTRICTED ASSETS		46,140	46,140	
NONCURRENT ASSETS:				
CAPITAL ASSETS:				
Land	201,000		201,000	
Buildings		693,533	693,533	
Equipment	297,243	157,464	454,707	384,457
Improvements	1,422,773		1,422,773	
Infrastructure	1,052,591	4,334,781	5,386,872	
Less: accumulated depreciation	(1,049,565)	(1,339,369)	(2,388,954)	(268,516)
CAPITAL ASSETS - NET	1,924,042	3,845,889	5,769,931	115,941
OTHER ASSETS:				
Bond issue costs	5,538		5,538	
TOTAL OTHER ASSETS	5,538		5,538	
TOTAL NONCURRENT ASSETS	1,929,580	3,845,889	5,775,469	115,941
TOTAL ASSETS	2,114,483	4,009,572	6,124,055	263,959
LIABILITIES				
CURRENT LIABILITIES				
Due to other funds	42,455	288,019	330,473	48,363
Accounts payable	40,911		40,911	
Accrued interest payable	20,246	16,179	36,425	
Note payable - Current	24,069		24,069	12,586
Revenue bonds payable - Current	14,000	22,000	36,000	
TOTAL CURRENT LIABILITIES	141,681	326,197	467,877	60,949
NONCURRENT LIABILITIES:				
Note payable	50,741		50,741	41,925
Revenue bonds payable	1,233,000	1,416,000	2,649,000	
TOTAL NONCURRENT LIABILITIES	1,283,741	1,416,000	2,699,741	41,925
TOTAL LIABILITIES	1,425,422	1,742,197	3,167,618	102,874
NET ASSETS				
Invested in capital assets, net of related debt	602,232	2,407,889	3,010,121	61,430
Restricted for:				
Capital projects	125,000	46,140	171,140	
Unrestricted (deficit)	(38,172)	(186,555)	(224,826)	99,655
TOTAL NET ASSETS	\$ 689,060	\$ 2,267,375	2,956,436	\$ 161,085
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds			7,275	
Net assets of business-type activities			\$ 2,963,711	

The accompanying notes are an integral part of the financial statements.

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SEWER	WATER	TOTALS	
OPERATING REVENUE:				
Charges for services	\$ 132,238	\$ 299,205	\$ 431,442	\$ 75,371
Hydrant rental		15,000	15,000	
TOTAL OPERATING REVENUE	<u>132,238</u>	<u>314,205</u>	<u>446,442</u>	<u>75,371</u>
OPERATING EXPENSES:				
Salaries	10,963	21,437	32,401	5,370
Employee benefits	10,259	11,745	22,003	2,577
Operating supplies	1,198	7,568	8,767	1,253
Legal and accounting fees	-		-	382
Repairs and maintenance	7,283	9,049	16,332	20,455
Testing and fees		2,143	2,143	
Equipment rental	4,670	7,032	11,702	
Utilities	5,891	11,764	17,655	
Seminars	1,050	773	1,823	
Alarm expense	794	783	1,577	
Lagoon system	4,025		4,025	
Telephone		2,948	2,948	
Water purchase from Caseville		179,768	179,768	
Minutes - water board meetings		150	150	
Amortization	154		154	
Depreciation	71,340	113,644	184,984	26,457
Capital improvement expense		625	625	
Intake valve - Caseville		26,754	26,754	
TOTAL OPERATING EXPENSES	<u>117,627</u>	<u>396,184</u>	<u>513,811</u>	<u>56,495</u>
OPERATING INCOME (LOSS)	<u>14,611</u>	<u>(81,978)</u>	<u>(67,367)</u>	<u>18,877</u>
NONOPERATING REVENUE (EXPENSES):				
Current property taxes		51,394	51,394	
Interest income	121	2,473	2,595	
Interest and paying agent fees	(58,520)	(65,419)	(123,938)	
TOTAL NONOPERATING (EXPENSES)	<u>(58,399)</u>	<u>(11,552)</u>	<u>(69,950)</u>	
CHANGE IN NET ASSETS	<u>(43,788)</u>	<u>(93,531)</u>	<u>(137,318)</u>	<u>18,877</u>
NET ASSETS - BEGINNING OF YEAR	<u>732,848</u>	<u>2,311,538</u>		<u>166,801</u>
PRIOR PERIOD ADJUSTMENT		49,368		(24,593)
NET ASSETS - END OF YEAR	<u>\$ 689,060</u>	<u>\$ 2,267,375</u>		<u>\$ 161,085</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds			<u>2,931</u>	
Changes in net assets of business-type activities			<u>\$ (134,388)</u>	

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>BUSINESS-TYPE ACTIVITIES</u> <u>ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL</u> <u>ACTIVITIES</u> <u>INTERNAL</u> <u>SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>TOTALS</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 130,763	\$ 296,015	\$ 426,778	
Receipts from interfund services		15,000	15,000	\$ 75,371
Payments to suppliers of goods and services	(3,220)	(352,222)	(355,442)	(52,464)
Payments to employees	(10,963)	(21,437)	(32,401)	(5,370)
Payments for fringe benefits	(10,259)	(11,745)	(22,003)	(2,577)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>106,321</u>	<u>(74,389)</u>	<u>31,932</u>	<u>14,960</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets	(26,952)	(27,730)	(54,682)	(69,471)
Bond principal payment	(13,000)	(21,000)	(34,000)	
Interest and fees paid on bonds	(59,330)	(65,656)	(124,986)	
Payment on capital lease				(15,489)
Proceeds from capital lease				70,000
Property tax levy received		51,394	51,394	
Payment on areator notes	(23,010)		(23,010)	
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(122,291)</u>	<u>(62,992)</u>	<u>(185,284)</u>	<u>(14,960)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	121	2,473	2,594	
NET (DECREASE) IN CASH AND RESTRICTED CASH	<u>(15,850)</u>	<u>(134,908)</u>	<u>(150,758)</u>	<u>-</u>
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	55,201	227,392	282,593	-
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 39,352</u>	<u>\$ 92,484</u>	<u>\$ 131,835</u>	<u>\$ -</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 14,611	\$ (81,978)	\$ (67,367)	\$ 18,877
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	71,340	113,544	184,884	26,457
Amortization	154		154	
(Increase) decrease in current assets:				
Accounts receivable	(1,476)	(3,190)	(4,665)	
Due from other funds	17,022	0	17,022	(56,056)
Increase (decrease) in current liabilities:				
Due to other funds	4,670	(102,865)	(98,195)	25,682
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 106,321</u>	<u>\$ (74,389)</u>	<u>\$ 31,933</u>	<u>\$ 14,960</u>

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Village of Pigeon operates a council-president form of government under provisions of a revised charter, and provides the following services as authorized by its charter: public safety, (police and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the Village are discussed below.

Reporting Entity:

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, the Village of Pigeon has no component units.

Government Wide and Fund Financial Statements:

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Village's police and general administrative services are classified as governmental activities. The Village's water and sewer are classified as business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government Wide and Fund Financial Statements: (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Village are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

State revenue sharing, charges for services, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the Village.

VILLAGE OF PIGEON, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The Village reports the following major governmental funds:

General Fund-The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund-The Major Street Fund accounts for resources legally restricted to expenditures for specified current operating purposes relating to the Major Streets of the Village.

Local Street Fund-The Local Street Fund accounts for resources legally restricted to expenditures for specified current operating purposes relating to the Local Streets of the Village.

Debt Service Funds – Debt service funds account for payments on bonds of the Village. The Village accounts for the Transportation Bonds and Storm Sewer Bonds in debt service funds.

The Village reports the following major proprietary funds:

The **Sewer Fund** accounts for the activities of the Village's wastewater treatment operations.

The **Water Fund** accounts for the activities of the Village's water distribution system.

Additionally, the Village reports the following nonmajor fund types:

Special Revenue Funds – Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. Accounting and financial reporting for General and Special Revenue Funds are identical. The Village accounts for the Trunkline and Recreation Funds in special revenue funds.

Capital Project Fund-The Capital Project Fund accounts for the activities of a construction project.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF PIGEON, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the utility enterprise funds are charges to customers of the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting:

The Village Council practices the following procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Village charter, prior to February 28, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Village charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to February 28, the budget is legally enacted through passage of a resolution.
4. The Village Clerk is required by the Village charter to present a monthly report to the Village Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse at the end of each fiscal year.
8. The Village Council may authorize supplemental appropriations during the year.

Cash and Cash Equivalents:

Cash and cash equivalents of the Village include cash on hand and all deposits with financial institutions, including all certificates of deposit.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Other receivables at February 29, 2008 consist of property taxes, state road taxes, and billings for user charge services, including trash collections and utility services. Taxes, trash and utility charges are deemed collectible in full.

(Continued)

VILLAGE OF PIGEON, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences:

Village employees are allowed to accumulate a maximum of thirty days of sick leave. In the event of death, termination of employment, or retirement of an employee, one-half of sick leave accumulation is paid to the employee at his current rate of pay. Unused sick leave in excess of thirty days is paid annually at one-half of regular pay rate. There is no accumulation of unused vacation days allowed. The Village accrues a liability for compensated absences based on the estimate of accumulated sick leave that will be paid to its employees upon termination of employment in accordance with the requirements of GASB Statement 16. For governmental funds, the liability for compensated absences is recorded in the statement of net assets as a long-term liability since it is anticipated that none of the liability will be liquidated with expendable available financial resources.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through September 14. Village property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA Interpretation 3 (Revenue Recognition - Property Taxes). The delinquent taxes of the Village are purchased through a revolving fund by Huron County and are therefore included as revenue in the fiscal year levied.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

(Continued)

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended February 29, 2008, was \$117,916. Capital asset acquisitions in the governmental funds totaled \$183,184 and there were disposals of \$180,130 for the year ended February 29, 2008. A summary of Governmental Fund capital assets at February 29, 2008, follows:

	February 28,	
	<u>2008</u>	<u>2007</u>
Land (Non-Depreciable)	\$ 500,000	\$ 500,000
Buildings	1,220,302	1,190,416
Equipment	955,986	942,298
Infrastructure	6,819,779	6,860,299
Total capital assets	9,496,067	9,493,013
Less accumulated depreciation	(4,619,722)	(4,514,383)
NET GOVERNMENTAL FUND CAPITAL ASSETS	<u>\$4,876,345</u>	<u>\$4,978,630</u>

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended February 29, 2008, was \$184,984. Capital asset acquisitions in the business-type funds totaled \$184,682 and there were no asset disposals for the year ended February 29, 2008. A summary of Business-Type Fund capital assets at February 29, 2008, follows:

	February 28,	
	<u>2008</u>	<u>2007</u>
Land (Non-Depreciable)	\$ 201,000	\$ 201,000
Land improvements	1,422,773	1,422,773
Buildings	693,533	693,533
Equipment	454,707	426,977
Water infrastructure	4,334,281	4,204,281
Sewer infrastructure	1,052,591	1,025,639
Total capital assets	8,158,885	7,974,203
Less accumulated depreciation	(2,388,954)	(2,123,338)
NET BUSINESS-TYPE FUND CAPITAL ASSETS	<u>\$5,769,931</u>	<u>\$5,850,865</u>

(Continued)

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Depreciation expense was charged to functions/programs of the Village as follows:

Governmental activities:	
Unallocated	\$ 18,947
Public safety	3,250
Public works	4,621
Highways and public improvement	80,740
Recreation	<u>10,358</u>
Total depreciation expense -- governmental activities	<u>\$117,916</u>
Business-type activities:	
Sewer	\$ 71,340
Water	<u>113,644</u>
Total depreciation expense -- business-type activities	<u>\$184,984</u>

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Prior Period Adjustment:

During the year ended February 29, 2008, an error in the amount of the governmental fund capital assets was discovered. The governmental fund capital assets were overstated by \$103,383. The governmental fund net assets have been corrected through the prior period adjustment in the amount of \$103,383. Also, the business type capital assets were understated by \$49,368 and have been corrected during the year ended February 29, 2008. The net effect of these corrections is a decrease of the government wide net assets in the amount of \$54,015.

VILLAGE OF PIGEON, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 2 – BUDGET COMPLIANCE:

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the required supplementary information, the Village's expenditures and budgeted expenditures for the budgetary funds have been shown on a line item basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended February 29, 2008, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Police	\$110,265	\$120,740	\$ (10,475)
Capital outlay	6,700	35,342	(28,642)
Debt Service	135	12,991	(12,856)
Major Street:			
Routine maintenance	19,500	19,734	(234)
Winter maintenance	4,390	4,408	(17)

NOTE 3 – CASH AND DEPOSITS:

The carrying amount of cash and deposits with financial institutions of the Village of Pigeon amounted to \$536,586 at February 29, 2008. The total bank balance as of the same date was \$557,362. Deposits with financial institutions are categorized as follows:

	<u>February 29, 2008</u>
Amount insured by the FDIC	\$100,000
Uncollateralized	<u>457,362</u>
Total deposits with financial institutions	<u><u>\$557,362</u></u>

The carrying amount of cash and deposits, which were restricted or designated for capital improvements as of February 29, 2008, amounted to \$46,140.

Michigan Compiled Laws Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village's deposits are in accordance with statutory authority. The Village's investment policy limits its authorized investments to the following: checking accounts, savings accounts and certificates of deposits at financial institutions that are insured by the Federal Deposit Insurance Corporation. However, the investment policy does not address the custodial credit risk associated with the deposits in financial institutions in excess of insured limits. The Village's deposits and investments are within the authorization as set forth by the Village of Pigeon.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 4 – PROPERTY TAXES:

Property taxes are levied based on the taxable value of property located in the Village. Assessed value is established annually and equalized by the State at an estimated 50% of current market value. A comparison of the assessed and taxable property values for the 2007 tax levy is as follows:

	ASSESSED VALUE	TAXABLE VALUE
Real property-Regular roll	\$30,985,400	\$26,800,892
Personal property-Regular roll	5,120,400	5,120,400
TOTAL	\$36,105,800	\$31,921,292

The Village is permitted, by charter, to levy up to \$22.73 (22.73 mills) per \$1,000 of taxable value for general governmental services including debt service. For the year ended February 29, 2008, the Village levied 12.27 mills for general governmental services, 1.00 mills for local street, and 4.70 mills for debt service. Total millage levied was 17.97.

NOTE 5 – INTERNAL BALANCES AND TRANSFERS:

The Village pools its cash funds into a common demand deposit account for investment and accounting purposes. The interfund receivables and payables represent deposit and disbursement transactions that have been processed for the various funds through the common checking account. The balances of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
Major Street	\$183,602	General Fund	\$183,602
Trunkline	40,098	General Fund	40,098
Local Street	137,067	General Fund	137,067
Recreation Fund	11,120	General Fund	11,120
Sewer Fund	124,943	General Fund	124,943
Sewer Fund	784	Capital Project Fund	784
Water Fund	26,079	Sewer Fund	26,079
Equipment Rental	38,731	Major Street	38,731
Equipment Rental	25,544	Trunkline	25,544
Equipment Rental	36,141	Local Street	36,141
Equipment Rental	5,583	Recreation	5,583
Equipment Rental	16,375	Sewer Fund	16,375
Equipment Rental	25,645	Water Fund	25,645
General Fund	262,374	Water Fund	262,374
General Fund	48,363	Equipment Rental	48,363
General Fund	113	Debt Service	113
Total	\$982,562	Total	\$982,562

VILLAGE OF PIGEON, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 5 – INTERNAL BALANCES AND TRANSFERS: (CONTINUED)

During the year ended February 29, 2008, the General Fund transferred \$18,500 to the Recreation Fund to support the Village's parks and recreation program. The General Fund also transferred \$89,102 to the Transportation Bonds Debt Retirement Fund for the final payment of principal and interest on the Transportation Bonds and to close the Transportation Bonds Debt Retirement Fund.

NOTE 6 – PENSION PLAN:

Plan Description: The Village of Pigeon participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy: The obligation to contribute to and maintain the system for these employees was established by state statutes and requires a contribution from the employees of 4% of their salary. The Village is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

Annual Pension Cost: For the year ended February 29, 2008, the Village's annual pension cost of \$22,307 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three year trend information:

	<u>Fiscal year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$17,948	\$20,948	\$22,234
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	662,313	678,683	711,559
Actuarial Accrued Liability (entry age)	868,937	913,454	919,642
Unfunded AAL	206,624	234,771	208,083
Funded ratio	76%	74%	77%
Covered payroll	186,656	214,957	218,596
UAAL as a percentage of covered payroll	111%	109%	95%

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 7 – RISK MANAGEMENT:

General Liability: Village of Pigeon participates in the Michigan Township Participating Plan, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$4.4 million for real and personal property losses and \$5 million for liability losses. Village of Pigeon is required to pay annual premiums to the Michigan Township Participating Plan for the liability coverage. No supplemental premium assessment is required by the Michigan Township Participating Plan. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Workers' Compensation: Village of Pigeon purchased commercial insurance coverage for losses related to workers' compensation claims.

Employee Health Care: Village of Pigeon purchased commercial insurance coverage for its employees and their dependents.

NOTE 8 – LONG-TERM DEBT:

Long-term debt currently outstanding is as follows:

	<u>FEBRUARY 28, 2007</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>FEBRUARY 29, 2008</u>	<u>DUE WITHIN ONE YEAR</u>
Governmental activities:					
General obligation Bonds - MBT	\$ 20,000		\$ 20,000	\$ -	
General obligation Bonds – Storm Sewer	2,000,000			2,000,000	\$10,000
Capital lease -- sweeper		\$ 70,000	15,489	54,511	12,586
Capital improvement Bonds - 2006	115,000		5,000	110,000	5,000
Accrued compensated absences	23,768		2,906	20,862	
Total long-term debt - governmental activities	\$ <u>2,158,768</u>	\$ <u>70,000</u>	\$ <u>43,395</u>	\$ <u>2,185,373</u>	\$ <u>27,586</u>
Business-type activities:					
Note payable - aerators	\$ 97,820		\$ 23,010	\$ 74,810	\$24,069
Sanitary sewage revenue bonds-2004	1,260,000		13,000	1,247,000	14,000
Water supply revenue Bonds - 1999	1,459,000		21,000	1,438,000	22,000
Total long-term debt – business-type activities	\$ <u>2,816,820</u>	\$ <u>-</u>	\$ <u>57,010</u>	\$ <u>2,759,810</u>	\$ <u>60,069</u>

(Continued)

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 8 – LONG-TERM DEBT: (CONTINUED)

Annual debt service requirements to maturity for the above obligations (excluding compensated absences) are as follows:

February 28,	2005 General Obligation Bonds	Sanitary Sewer Revenue Bonds	Water Supply Revenue Bond	Lagoon Note Payable	Capital Improvement Bonds	Sweeper Capital Lease
2009	\$ 108,842	\$ 68,250	\$ 86,710	\$ 27,500	\$ 10,500	\$ 15,489
2010	123,002	67,638	86,720	27,500	11,225	15,489
2011	131,562	68,003	86,686	26,666	10,925	15,489
2012	129,882	68,325	86,606		10,625	15,489
2013	128,202	67,625	87,480		11,300	
2014-2018	684,210	340,444	434,414		54,989	
2019-2023	784,505	338,672	434,196		45,489	
2024-2028	893,959	341,214	434,802			
2029-2033	543,888	340,578	434,934			
2034-2038		340,391	435,752			
2039-2043		340,333	87,780			
2044-2045		136,793				
Total	3,528,052	2,518,266	2,696,080	81,666	155,053	61,956
Less interest	1,528,052	1,271,266	1,258,080	6,856	45,053	7,445
Outstanding principal	<u>\$2,000,000</u>	<u>\$1,247,000</u>	<u>\$1,438,000</u>	<u>\$ 74,810</u>	<u>\$110,000</u>	<u>\$ 54,511</u>

Details of the Village of Pigeon's long-term debt as of February 29, 2008, are as follows:

The Village of Pigeon General Obligation Unlimited Tax Bonds, Series 2005, were issued May 1, 2005. The bonds were issued to provide financing for the storm sewer project to be completed in 2006. The bonds bear interest payable each May 1 and November 1 until maturity. The bonds final maturity date is May 1, 2030. The interest rate varies from 4.80% to 5.10%.

\$2,000,000

The Village of Pigeon Sanitary Sewage Disposal System Revenue Bonds, Series 2004 in the amount of \$1,285,000, were issued May 27, 2004. The bond proceeds were used to upgrade the existing pump station, remove the accumulated sludge from the existing lagoon, construct a new 10-acre lagoon, and construct related improvements. The bonds shall bear interest payable November 1, 2004 and each May 1 and November 1 thereafter until maturity. The bonds final maturity date is May 1, 2044. The interest rate on the bonds is 4.375%.

1,247,000

The Village of Pigeon Water Supply System Revenue Bonds, in the amount of \$1,600,000, were issued August 18, 1999. The bond proceeds, along with a grant of \$1,400,000 from the USDA Rural Development, were used to construct a water supply system from Caseville to Pigeon. The bonds shall bear interest payable December 1, 1999 and each June 1 and December 1 thereafter until maturity. The bonds final maturity date is June 1, 2024. The interest rate on the bonds is 4.5%.

1,438,000

(Continued)

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 29, 2008

NOTE 8 – LONG-TERM DEBT: (CONTINUED)

The Village of Pigeon entered into a lease payable on aerators on July 25, 2005. During the year ended February 28, 2007 the lease was purchased by *Thumb National Bank at an interest rate of 4.59%. The final payment is July 25, 2010. 74,810

The Village of Pigeon Capital Improvement Bonds, Series 2006 in the amount of \$115,000 were issued on August 3, 2006. The bond proceeds were used to construct, improve and replace watermain and other water supply system improvements. The bonds shall bear interest payable December 1, 2006 and each June 1 and December 1 thereafter until maturity. The bonds final maturity date is December 1, 2021. The interest rate on the bonds is 5.0% and 5.25%. 110,000

The Village of Pigeon entered into a capital lease payable to 1st Source Bank for a street sweeper on March 26, 2007 at an interest rate of 5.33%. The lease is payable in 5 annual payments of \$15,489. The final payment is March 28, 2011. 54,511

Total interest incurred by the Village of Pigeon on its various bond issues and long term debt totaled \$231,497 for the year ended February 29, 2008 all of which was charged to expense in the various funds of the Village.

*The Village President is an employee of Thumb National Bank.

Capital Leases

The Village has entered into lease agreements for financing capital equipment. The lease agreements qualify as capital leases for accounting purposes, therefore they have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

<u>Asset</u>	
Street Sweeper	\$ 70,000
Lagoon Aerators	<u>132,000</u>
Total Assets Acquired	202,000
Less: Accumulated Depreciation	<u>(40,788)</u>
Net Book Value	<u>\$161,212</u>

The future minimum lease obligation and net present value of these minimum lease payments as of February 29, 2008, were presented on page 22.

NOTE 9 – SUBSEQUENT EVENTS

On May 1, 2008, the Village received a Community Development Block Grant in the amount of \$1,108,100 from the Michigan Economic Development Corp. to finance the costs to upgrade a portion of the Village's water mains, storm sewer, and street improvements. The Village is responsible for the cost of the engineering which is estimated to be \$100,000. The project is expected to begin in August 2008 with final completion by May 31, 2009.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 438,420	\$ 548,893	\$ 428,785	\$ (120,108)
Tax collection fees	10	10	(15)	(25)
Total for taxes	<u>438,430</u>	<u>548,903</u>	<u>428,770</u>	<u>(120,133)</u>
Licenses and permits	<u>650</u>	<u>525</u>	<u>525</u>	<u>-</u>
Intergovernmental:				
State revenue sharing	<u>120,760</u>	<u>119,304</u>	<u>119,304</u>	<u>-</u>
Total Intergovernmental	<u>120,760</u>	<u>119,304</u>	<u>119,304</u>	<u>-</u>
Charges for services:				
Curb, gutter and DPW services	750	1,068	3,491	2,423
Refuse collection	<u>50,600</u>	<u>52,374</u>	<u>52,134</u>	<u>(239)</u>
Total Charges for Services	<u>51,350</u>	<u>53,442</u>	<u>55,625</u>	<u>2,184</u>
Fines and other	<u>6,425</u>	<u>2,786</u>	<u>2,786</u>	<u>-</u>
Miscellaneous:				
Interest and other	335	470	468	(2)
Administration fees	11,125	10,750	10,750	-
Cable TV fees	6,360	5,486	5,486	-
Other	<u>5,575</u>	<u>40,157</u>	<u>64,116</u>	<u>23,959</u>
Total Miscellaneous	<u>23,395</u>	<u>56,864</u>	<u>80,820</u>	<u>23,957</u>
TOTAL REVENUE	<u>641,010</u>	<u>781,824</u>	<u>687,831</u>	<u>(93,992)</u>
EXPENDITURES:				
Legislative:				
Elected Officials:				
Salaries	7,200	6,200	3,733	2,467
Benefits	1,825	2,125	9	2,116
Committee attendance	<u>18,000</u>	<u>22,000</u>	<u>9,450</u>	<u>12,550</u>
Total Elected Officials	<u>27,025</u>	<u>30,325</u>	<u>13,192</u>	<u>17,133</u>

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
General Government:				
Clerk:				
Salaries	40,830	45,030	45,403	(373)
Clerical wages	10,101	9,601	7,863	1,738
Zoning Administrator	400	400	400	-
Benefits	22,865	23,565	22,967	598
Equipment maintenance	2,000	2,000	1,994	6
Office supplies and expense	3,066	3,066	2,641	425
Postage	600	600	494	106
Printing and publications	1,350	450	318	132
Professional	8,730	8,730	8,520	210
Trash pickup	51,150	52,075	52,058	17
Travel and seminars	250	250	177	73
Insurance	75,609	70,109	69,664	445
Other	5,320	6,070	4,729	1,341
Internet services	235	235	171	64
Telephone	1,400	1,475	1,362	113
Copy machine lease expense	2,600	100	74	26
Web site expense	1,000	1,000	870	129
Total Clerk	<u>227,506</u>	<u>224,756</u>	<u>219,706</u>	<u>5,050</u>
Elections	1,914	1,714	1,575	139
Treasurer	3,685	3,635	3,517	118
Total General Government	<u>233,105</u>	<u>230,105</u>	<u>224,798</u>	<u>5,307</u>
General Services Administration:				
Buildings & Grounds:				
Salaries	6,000	9,000	9,042	(42)
Employee benefits	500	690	692	(2)
Janitor	825	915	842	73
Cleaning supplies	800	1,050	1,034	16
Utilities	15,000	11,400	9,985	1,415
Maintenance and repairs	25,213	25,213	11,593	13,620
Trees trim/down - Stump removal	2,670	4,170	4,147	23
Bandshell - Electricity	1,100	1,100	1,269	(169)
Bandshell	6	6	6	-
School property - Utilities	10,000	6,000	5,527	473
Total Buildings & Grounds	<u>62,114</u>	<u>59,545</u>	<u>44,138</u>	<u>15,407</u>

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Police Department:				
Salary - Chief	40,230	40,230	40,208	22
Salary - Other	32,375	24,375	24,212	164
Employee benefits	25,235	24,235	22,603	1,632
Uniform allowance	400	580	573	7
Office supplies and expense	1,570	1,570	1,301	269
Telephone	2,100	2,100	1,887	213
Gas and oil	5,000	4,200	4,135	65
Maintenance and repairs	2,750	2,750	2,618	132
Travel and seminars	1,535	1,535	1,493	42
302 funds - income and expense	2,275	2,275	1,434	841
Legal fees	6,300	5,100	4,140	960
Training funds	500	500	15,408	(14,908)
Police department internet	115	115	85	30
LEIN System	1,700	700	643	57
Total Police Department	<u>122,085</u>	<u>110,265</u>	<u>120,740</u>	<u>(10,475)</u>
Public Works:				
Department of Public Works:				
Salaries	49,650	48,650	49,675	(1,025)
Employee benefits	22,150	26,125	26,815	(690)
Operating supplies	4,500	4,500	3,621	879
Uniform cleaning	2,125	2,125	1,667	458
Telephone	2,300	2,300	1,992	308
Electricity - Village lights	25,250	25,370	24,834	536
Electricity - Other	3,750	3,750	3,364	386
Equipment rental	15,000	19,350	19,315	35
Hydrant rental	15,000	15,000	15,000	-
Other	1,430	1,430	1,207	223
Sidewalk replacement	4,500	900	823	78
New street lights	4,500	4,000	3,332	668
Tree lights	1,100	1,100	738	362
Lawn maintenance contract	11,970	11,970	11,969	1
Repairs and maintenance	1,100	1,100	1,098	2
Travel and seminars	525	25	-	25
OSHA consulting	1,400	1,400	1,400	-
Total Department of Public Works	<u>166,250</u>	<u>169,095</u>	<u>166,850</u>	<u>2,245</u>

(Continued)

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Storm Drains:				
Labor	2,520	2,520	785	1,735
Employee benefits	530	840	749	91
Total Storm Drains	<u>3,050</u>	<u>3,360</u>	<u>1,534</u>	<u>1,826</u>
Capital Outlay:				
General	3,000	2,200	2,138	62
Building and grounds	12,500	4,500	33,204	(28,704)
Total Capital Outlay	<u>15,500</u>	<u>6,700</u>	<u>35,342</u>	<u>(28,642)</u>
Debt Service:				
Capital improvement bond interest payment	-	-	7,856	(7,856)
Capital improvement bond principal payment	-	-	5,000	(5,000)
Principal payments on capital lease	135	135	135	-
Total Debt Service	<u>135</u>	<u>135</u>	<u>12,991</u>	<u>(12,856)</u>
TOTAL EXPENDITURES	<u>629,264</u>	<u>609,529</u>	<u>619,584</u>	<u>(10,054)</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>11,746</u>	<u>172,294</u>	<u>68,247</u>	<u>(104,047)</u>
OTHER FINANCING (USES):				
Operating transfers out	(27,000)	(18,500)	(87,602)	(69,102)
TOTAL OTHER FINANCING (USES)	<u>(27,000)</u>	<u>(18,500)</u>	<u>(87,602)</u>	<u>(69,102)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(15,254)</u>	<u>153,794</u>	<u>(19,355)</u>	<u>(173,149)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>143,227</u>	<u>143,227</u>	<u>143,227</u>	
FUND BALANCE - END OF YEAR	<u>\$ 127,973</u>	<u>\$ 297,021</u>	<u>\$ 123,872</u>	<u>\$ (173,149)</u>

VILLAGE OF PIGEON, MICHIGAN

**MAJOR STREET FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 67,100	\$ 61,525	\$ 61,386	\$ (138)
TOTAL REVENUE	<u>67,100</u>	<u>61,525</u>	<u>61,386</u>	<u>(138)</u>
EXPENDITURES:				
Road Construction:				
Labor	1,025	825	-	825
Contracted services	15,000	10,100	10,000	100
Materials	250	250	-	250
Total Road Construction	<u>16,275</u>	<u>11,175</u>	<u>10,000</u>	<u>1,175</u>
Routine Maintenance:				
Labor	4,000	3,500	4,019	(519)
Materials and supplies	1,200	1,000	1,206	(206)
Equipment rental	7,800	7,300	7,096	204
Sweeping and flushing	9,200	7,700	7,413	287
Total Routine Maintenance	<u>22,200</u>	<u>19,500</u>	<u>19,734</u>	<u>(234)</u>
Traffic services	<u>450</u>	<u>525</u>	<u>463</u>	<u>62</u>
Winter maintenance:				
Labor	1,350	2,450	2,521	(71)
Supplies and services	700	740	735	5
Equipment rental	1,500	1,200	1,151	49
Total Winter maintenance	<u>3,550</u>	<u>4,390</u>	<u>4,408</u>	<u>(17)</u>
Administration:				
Administrative fee	3,000	3,000	3,000	
Employee benefits	3,800	3,920	3,917	3
Total Administration	<u>6,800</u>	<u>6,920</u>	<u>6,917</u>	<u>3</u>
TOTAL EXPENDITURES	<u>49,275</u>	<u>42,510</u>	<u>41,523</u>	<u>987</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>17,825</u>	<u>19,015</u>	<u>19,864</u>	<u>849</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	(18,620)	(18,620)	46,500	65,120
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	<u>(795)</u>	<u>395</u>	<u>66,364</u>	<u>65,969</u>
FUND BALANCE - BEGINNING OF YEAR	<u>90,458</u>	<u>90,458</u>	<u>90,458</u>	
FUND BALANCE - END OF YEAR	<u>\$ 89,663</u>	<u>\$ 90,853</u>	<u>\$ 156,822</u>	<u>\$ 65,969</u>

VILLAGE OF PIGEON, MICHIGAN

**LOCAL STREET FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 33,600	\$ 31,781	\$ 34,268	\$ 2,487
County road millage	<u>30,900</u>	<u>32,509</u>	<u>32,509</u>	<u>-</u>
Total taxes	64,500	64,290	66,777	2,487
Intergovernmental:				
Gas and weight tax	<u>20,350</u>	<u>25,843</u>	<u>25,800</u>	<u>(43)</u>
TOTAL REVENUE	<u>84,850</u>	<u>90,133</u>	<u>92,577</u>	<u>2,444</u>
EXPENDITURES:				
Construction:				
Labor	750	860	852	8
Equipment rental	1,300	1,300	1,194	106
Materials	500	500	-	500
Contracted services	<u>40,000</u>	<u>28,000</u>	<u>27,708</u>	<u>292</u>
Total Construction	<u>42,550</u>	<u>30,660</u>	<u>29,753</u>	<u>906</u>
Routine maintenance:				
Labor	2,800	2,800	2,778	22
Materials and supplies	5,635	2,635	2,407	228
Sweeping and flushing	5,350	5,350	4,935	415
Equipment rental	7,874	6,874	5,504	1,370
Contracted services	<u>-</u>	<u>6,000</u>	<u>5,629</u>	<u>371</u>
Total Routine Maintenance	<u>22,659</u>	<u>23,659</u>	<u>21,253</u>	<u>2,406</u>
Traffic services	<u>500</u>	<u>500</u>	<u>439</u>	<u>61</u>
Winter maintenance:				
Labor	2,575	3,335	2,490	845
Supplies and services	1,000	1,000	871	129
Equipment rental	<u>2,500</u>	<u>4,300</u>	<u>4,249</u>	<u>51</u>
Total Winter Maintenance	<u>6,075</u>	<u>8,635</u>	<u>7,609</u>	<u>1,026</u>
Administration				
Labor		770	-	770
Administrative fee	2,000	2,000	2,000	
Employee benefits	<u>7,440</u>	<u>5,615</u>	<u>4,669</u>	<u>946</u>
Total administration	<u>9,440</u>	<u>8,385</u>	<u>6,669</u>	<u>1,716</u>
TOTAL EXPENDITURES	<u>81,224</u>	<u>71,839</u>	<u>65,725</u>	<u>6,114</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>3,626</u>	<u>18,294</u>	<u>26,852</u>	<u>8,558</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	<u>(2,000)</u>	<u>(2,000)</u>	<u>10,000</u>	<u>12,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,000)</u>	<u>(2,000)</u>	<u>10,000</u>	<u>12,000</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	<u>1,626</u>	<u>16,294</u>	<u>36,852</u>	<u>20,558</u>
FUND BALANCE - BEGINNING OF YEAR	<u>67,784</u>	<u>67,784</u>	<u>67,784</u>	
FUND BALANCE - END OF YEAR	<u>\$ 69,410</u>	<u>\$ 84,078</u>	<u>\$ 104,636</u>	<u>\$ 20,558</u>

SUPPLEMENTAL INFORMATION

VILLAGE OF PIGEON, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FEBRUARY 29, 2008

	<u>TRUNKLINE</u>	<u>RECREATION</u>	<u>CAPITAL PROJECT</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash			\$ 40,784	\$ 40,784
Due from other funds	\$ 40,098	\$11,121	-	51,218
TOTAL ASSETS	<u>\$ 40,098</u>	<u>\$11,121</u>	<u>\$ 40,784</u>	<u>\$ 92,003</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to other funds	\$ 25,544	\$ 5,583	\$ 784	\$ 31,911
TOTAL LIABILITIES	<u>25,544</u>	<u>5,583</u>	<u>784</u>	<u>31,911</u>
<u>FUND BALANCE:</u>				
Unreserved	14,554	5,538	40,000	60,092
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,098</u>	<u>\$11,121</u>	<u>\$ 40,784</u>	<u>\$ 92,003</u>

VILLAGE OF PIGEON, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>TRUNKLINE</u>	<u>RECREATION</u>	<u>CAPITAL PROJECT</u>	<u>TRANSPORTATION BONDS DEBT RETIREMENT</u>	<u>TOTAL</u>
REVENUE:					
Intergovernmental	\$ 19,594				\$ 19,594
Miscellaneous		\$ 500		\$ -	500
TOTAL REVENUE	<u>19,594</u>	<u>500</u>		<u>-</u>	<u>20,094</u>
EXPENDITURES:					
Streets	19,508				19,508
Recreation		14,958			14,958
Debt retirement				20,620	20,620
TOTAL EXPENDITURES	<u>19,508</u>	<u>14,958</u>		<u>20,620</u>	<u>55,086</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>86</u>	<u>(14,458)</u>		<u>(20,620)</u>	<u>(34,992)</u>
OTHER FINANCING SOURCES:					
Operating transfers in		18,500		12,602	31,102
TOTAL OTHER FINANCING SOURCES		<u>18,500</u>		<u>12,602</u>	<u>31,102</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>86</u>	<u>4,042</u>		<u>(8,019)</u>	<u>(3,890)</u>
FUND BALANCE - BEGINNING OF YEAR	14,468	1,496	\$ 40,000	8,019	63,983
FUND BALANCE - END OF YEAR	<u>\$ 14,554</u>	<u>\$ 5,538</u>	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 60,093</u>

VILLAGE OF PIGEON, MICHIGAN

**TRUNKLINE
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Trunkline maintenance	\$ 15,575	\$ 19,594	\$ 19,594	\$ -
TOTAL REVENUE	<u>15,575</u>	<u>19,594</u>	<u>19,594</u>	<u>-</u>
EXPENDITURES:				
Routine maintenance:				
Labor	1,000	1,035	1,033	2
Materials and supplies	600	600	580	20
Equipment rental	2,800	2,100	1,899	201
Sweeping and flushing	<u>3,795</u>	<u>3,995</u>	<u>3,916</u>	<u>79</u>
Total Routine Maintenance	<u>8,195</u>	<u>7,730</u>	<u>7,427</u>	<u>302</u>
Traffic services:				
Labor	120	120	162	(42)
Materials and supplies	<u>800</u>	<u>500</u>	<u>450</u>	<u>50</u>
Total Traffic services	<u>920</u>	<u>620</u>	<u>612</u>	<u>9</u>
Winter maintenance:				
Labor	3,650	7,800	3,764	4,036
Employee benefits	500	792	795	(3)
Materials and supplies	500	605	600	5
Equipment rental	<u>3,750</u>	<u>3,270</u>	<u>6,310</u>	<u>(3,040)</u>
Total Winter maintenance	<u>8,400</u>	<u>12,467</u>	<u>11,469</u>	<u>998</u>
TOTAL EXPENDITURES	<u>17,515</u>	<u>20,817</u>	<u>19,508</u>	<u>1,310</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(1,940)</u>	<u>(1,223)</u>	<u>86</u>	<u>1,310</u>
FUND BALANCE - BEGINNING OF YEAR	14,468	14,468	14,468	
FUND BALANCE - END OF YEAR	<u>\$ 12,528</u>	<u>\$ 13,245</u>	<u>\$ 14,554</u>	<u>\$ 1,310</u>

VILLAGE OF PIGEON, MICHIGAN

**RECREATION FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Miscellaneous:				
Interest income	\$ 10	\$ -	\$ -	\$ -
Other	<u>500</u>	<u>500</u>	<u>500</u>	<u>-</u>
TOTAL REVENUE	<u>510</u>	<u>500</u>	<u>500</u>	<u>\$ -</u>
EXPENDITURES:				
Recreation:				
Labor	4,650	4,450	2,652	1,798
Employee benefits	2,960	3,390	3,384	6
Supplies	1,500	1,670	1,664	6
Utilities	1,000	1,110	1,079	31
Repairs and maintenance	3,700	3,700	3,598	102
Equipment rental	1,685	1,685	1,463	222
Other	400	400	380	20
Portable toilets	<u>750</u>	<u>750</u>	<u>738</u>	<u>12</u>
TOTAL EXPENDITURES	<u>16,645</u>	<u>17,155</u>	<u>14,958</u>	<u>2,197</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(16,135)</u>	<u>(16,655)</u>	<u>(14,458)</u>	<u>2,197</u>
OTHER FINANCING SOURCES:				
Operating transfers in	12,000	18,500	18,500	
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>(4,135)</u>	<u>1,845</u>	<u>4,042</u>	<u>2,197</u>
FUND BALANCE - BEGINNING OF YEAR	<u>1,496</u>	<u>1,496</u>	<u>1,496</u>	
FUND BALANCE - END OF YEAR	<u>\$ (2,639)</u>	<u>\$ 3,341</u>	<u>\$ 5,538</u>	<u>\$ 2,197</u>

VILLAGE OF PIGEON, MICHIGAN

**MICHIGAN DEPARTMENT OF TRANSPORTATION DEBT SERVICE FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES:				
Bond principal payments	\$ 20,000	\$ 20,000	\$ 20,000	
Interest and paying agent fees	<u>620</u>	<u>620</u>	<u>620</u>	<u> </u>
TOTAL EXPENDITURES	20,620	20,620	20,620	-
 OTHER FINANCING SOURCES:				
Operating transfers in	20,620	20,620	12,602	\$ (8,018)
 EXCESS OF OTHER SOURCES (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(8,019)</u>	<u>(8,018)</u>
 FUND BALANCE - BEGINNING OF YEAR	8,019	8,019	8,019	
 FUND BALANCE - END OF YEAR	<u>\$ 8,019</u>	<u>\$ 8,019</u>	<u>\$ -</u>	<u>\$ (8,018)</u>

VILLAGE OF PIGEON, MICHIGAN

**DEBT SERVICE FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 105,345	\$ 109,661	\$ 109,661	\$ -
Interest and dividend revenue	25	118	110	(8)
TOTAL REVENUE	<u>105,370</u>	<u>109,779</u>	<u>109,771</u>	<u>(8)</u>
EXPENDITURES:				
Bond interest expense	49,550	49,550	99,082	(49,532)
Bond fees	115	115	225	(110)
TOTAL EXPENDITURES	<u>49,665</u>	<u>49,665</u>	<u>99,307</u>	<u>(49,642)</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>55,705</u>	<u>60,114</u>	<u>10,464</u>	<u>(49,650)</u>
FUND BALANCE - BEGINNING OF YEAR	62,440	62,440	62,440	
FUND BALANCE - END OF YEAR	<u>\$ 118,145</u>	<u>\$ 122,554</u>	<u>\$ 72,904</u>	<u>\$ (49,650)</u>

VILLAGE OF PIGEON, MICHIGAN

**SEWER OPERATING FUND
SCHEDULE OF REVENUE, EXPENSES
AND CHANGE IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Charges for services	\$ 132,348	\$ 132,238	\$ (110)
TOTAL OPERATING REVENUE	<u>132,348</u>	<u>132,238</u>	<u>(110)</u>
OPERATING EXPENSES:			
Salaries	10,950	10,963	(13)
Employee benefits	10,520	10,259	261
Operating supplies	1,182	1,198	(16)
Legal and accounting fees	1,200	-	1,200
Repairs and maintenance	8,275	7,283	992
Equipment rental	4,950	4,670	280
Utilities	6,000	5,891	109
Seminars	1,500	1,050	450
Alarm expense	850	794	56
Lagoon system	4,100	4,025	75
Capital outlay	27,500	-	27,500
Amortization	-	154	(154)
Depreciation	71,000	71,340	(340)
TOTAL OPERATING EXPENSES	<u>148,027</u>	<u>117,627</u>	<u>30,400</u>
OPERATING INCOME (LOSS)	<u>(15,679)</u>	<u>14,611</u>	<u>30,290</u>
NONOPERATING REVENUE (EXPENSES):			
Storm sewer reimbursement	(26,952)		26,952
Interest revenue	119	121	2
Bond principal payments	(13,000)	-	13,000
Interest expense	(54,841)	(58,520)	(3,679)
TOTAL NONOPERATING (EXPENSES)	<u>(94,674)</u>	<u>(58,399)</u>	<u>36,275</u>
CHANGE IN NET ASSETS	<u>(110,353)</u>	<u>(43,788)</u>	<u>66,565</u>
NET ASSETS - BEGINNING OF YEAR	732,848	732,848	
NET ASSETS - END OF YEAR	<u>\$ 622,495</u>	<u>\$ 689,060</u>	<u>\$ 66,565</u>

VILLAGE OF PIGEON, MICHIGAN

**WATER OPERATING FUND
SCHEDULE OF REVENUE, EXPENSES
AND CHANGE IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Charges for services	\$ 294,655	\$ 299,205	\$ 4,550
Hydrant rental	<u>15,000</u>	<u>15,000</u>	<u>-</u>
TOTAL OPERATING REVENUE	<u>309,655</u>	<u>314,205</u>	<u>4,550</u>
OPERATING EXPENSES:			
Salaries	21,275	21,437	(162)
Employee benefits	11,545	11,745	(200)
Operating supplies	8,125	7,568	557
Repairs and maintenance	37,020	9,049	27,971
Testing and fees	2,520	2,143	377
Equipment rental	7,300	7,032	268
Utilities	12,000	11,764	236
Seminars	780	773	7
Alarm expense	837	783	54
Telephone	3,100	2,948	152
Administrative fee	6,000	-	6,000
Minutes - Water board meetings	175	150	25
Depreciation	111,000	113,644	(2,644)
Capital outlay	625	625	-
Water purchase from Caseville	179,770	179,768	2
Intake Valve - Caseville	<u>35,200</u>	<u>26,754</u>	<u>8,446</u>
TOTAL OPERATING EXPENSES	<u>437,272</u>	<u>396,184</u>	<u>41,089</u>
OPERATING (LOSS)	<u>(127,617)</u>	<u>(81,978)</u>	<u>45,639</u>
NONOPERATING REVENUE (EXPENSES):			
Current property taxes	51,394	51,394	-
Interest income	1,709	2,473	764
Intake reimbursement	8,437	-	(8,437)
Miscellaneous	(300)	-	300
Interest and paying agent fees	(49,905)	(65,419)	(15,514)
Bond principal payments	<u>(55,000)</u>	<u>-</u>	<u>55,000</u>
TOTAL NONOPERATING (EXPENSES)	<u>(43,665)</u>	<u>(11,552)</u>	<u>32,113</u>
CHANGE IN NET ASSETS	<u>(171,282)</u>	<u>(93,531)</u>	<u>77,752</u>
NET ASSETS - BEGINNING OF YEAR	2,311,538	2,311,538	
PRIOR PERIOD ADJUSTMENT	49,368	49,368	
NET ASSETS - END OF YEAR	<u>\$ 2,189,624</u>	<u>\$ 2,267,375</u>	<u>\$ 77,752</u>

VILLAGE OF PIGEON, MICHIGAN
SCHEDULE OF WATER SUPPLY REVENUE BONDS
SERIES 1999
FEBRUARY 29, 2008

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>PERIOD TOTAL</u>	<u>FISCAL TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>		
06/01/08			\$ 32,355	\$ 32,355	
12/01/08	\$ 22,000	4.50%	32,355	54,355	\$ 86,710
06/01/09			31,860	31,860	
12/01/09	23,000	4.50%	31,860	54,860	86,720
06/01/10			31,343	31,343	
12/01/10	24,000	4.50%	31,343	55,343	86,686
06/01/11			30,803	30,803	
12/01/11	25,000	4.50%	30,803	55,803	86,606
06/01/12			30,240	30,240	
12/01/12	27,000	4.50%	30,240	57,240	87,480
06/01/13			29,633	29,633	
12/01/13	27,000	4.50%	29,633	56,633	86,266
06/01/14			29,025	29,025	
12/01/14	29,000	4.50%	29,025	58,025	87,050
06/01/15			28,373	28,373	
12/01/15	30,000	4.50%	28,373	58,373	86,746
06/01/16			27,698	27,698	
12/01/16	32,000	4.50%	27,698	59,698	87,396
06/01/17			26,978	26,978	
12/01/17	33,000	4.50%	26,978	59,978	86,956
06/01/18			26,235	26,235	
12/01/18	34,000	4.50%	26,235	60,235	86,470
06/01/19			25,470	25,470	
12/01/19	36,000	4.50%	25,470	61,470	86,940
06/01/20			24,660	24,660	
12/01/20	38,000	4.50%	24,660	62,660	87,320
06/01/21			23,805	23,805	
12/01/21	39,000	4.50%	23,805	62,805	86,610
06/01/22			22,928	22,928	
12/01/22	41,000	4.50%	22,928	63,928	86,856
06/01/23			22,005	22,005	
12/01/23	43,000	4.50%	22,005	65,005	87,010
06/01/24			21,038	21,038	
12/01/24	45,000	4.50%	21,038	66,038	87,076
06/01/25			20,025	20,025	
12/01/25	47,000	4.50%	20,025	67,025	87,050
06/01/26			18,968	18,968	
12/01/26	49,000	4.50%	18,968	67,968	86,936
06/01/27			17,865	17,865	
12/01/27	51,000	4.50%	17,865	68,865	86,730
06/01/28			16,718	16,718	
12/01/28	54,000	4.50%	16,718	70,718	87,436
06/01/29			15,503	15,503	
12/01/29	56,000	4.50%	15,503	71,503	87,006
06/01/30			14,243	14,243	
12/01/30	58,000	4.50%	14,243	72,243	86,486
06/01/31			12,938	12,938	
12/01/31	61,000	4.50%	12,938	73,938	86,876
06/01/32			11,565	11,565	
12/01/32	64,000	4.50%	11,565	75,565	87,130
06/01/33			10,125	10,125	
12/01/33	67,000	4.50%	10,125	77,125	87,250

VILLAGE OF PIGEON, MICHIGAN
SCHEDULE OF WATER SUPPLY REVENUE BONDS
SERIES 1999
FEBRUARY 29, 2008

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>PERIOD TOTAL</u>	<u>FISCAL TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>		
06/01/34			8,618	8,618	
12/01/34	70,000	4.50%	8,618	78,618	87,236
06/01/35			7,043	7,043	
12/01/35	73,000	4.50%	7,043	80,043	87,086
06/01/36			5,400	5,400	
12/01/36	76,000	4.50%	5,400	81,400	86,800
06/01/37			3,690	3,690	
12/01/37	80,000	4.50%	3,690	83,690	87,380
06/01/38			1,890	1,890	
12/01/38	84,000	4.50%	1,890	85,890	87,780
	<u>\$ 1,438,000</u>		<u>\$ 1,258,080</u>	<u>\$ 2,696,080</u>	<u>\$ 2,696,080</u>

The Village of Pigeon Water Supply System Revenue Bonds, in the amount of \$1,600,000, were issued August 18, 1999. The bond proceeds, along with a grant of \$1,400,000 from the USDA Rural Development, were used to construct a water supply system from Caseville, Michigan, to Pigeon, Michigan.

VILLAGE OF PIGEON

SCHEDULE OF SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS SERIES 2004 FEBRUARY 29, 2008

<u>Date</u>	<u>Principal</u>	<u>Interest</u>		<u>Period Total</u>	<u>Fiscal Total</u>
		<u>Rate</u>	<u>Amount</u>		
5/1/2008	\$ 14,000	4.375%	\$ 27,278	\$ 41,278	
11/1/2008		4.375%	26,972	26,972	\$ 68,250
5/1/2009	14,000	4.375%	26,972	40,972	
11/1/2009		4.375%	26,666	26,666	67,638
5/1/2010	15,000	4.375%	26,666	41,666	
11/1/2010		4.375%	26,338	26,338	68,003
5/1/2011	16,000	4.375%	26,338	42,338	
11/1/2011		4.375%	25,988	25,988	68,325
5/1/2012	16,000	4.375%	25,988	41,988	
11/1/2012		4.375%	25,638	25,638	67,625
5/1/2013	17,000	4.375%	25,638	42,638	
11/1/2013		4.375%	25,266	25,266	67,903
5/1/2014	18,000	4.375%	25,266	43,266	
11/1/2014		4.375%	24,872	24,872	68,138
5/1/2015	19,000	4.375%	24,872	43,872	
11/1/2015		4.375%	24,456	24,456	68,328
5/1/2016	20,000	4.375%	24,456	44,456	
11/1/2016		4.375%	24,019	24,019	68,475
5/1/2017	20,000	4.375%	24,019	44,019	
11/1/2017		4.375%	23,581	23,581	67,600
5/1/2018	21,000	4.375%	23,581	44,581	
11/1/2018		4.375%	23,122	23,122	67,703
5/1/2019	22,000	4.375%	23,122	45,122	
11/1/2019		4.375%	22,641	22,641	67,763
5/1/2020	23,000	4.375%	22,641	45,641	
11/1/2020		4.375%	22,138	22,138	67,778
5/1/2021	24,000	4.375%	22,138	46,138	
11/1/2021		4.375%	21,613	21,613	67,750
5/1/2022	25,000	4.375%	21,613	46,613	
11/1/2022		4.375%	21,066	21,066	67,678
5/1/2023	27,000	4.375%	21,066	48,066	
11/1/2023		4.375%	20,475	20,475	68,541
5/1/2024	28,000	4.375%	20,475	48,475	
11/1/2024		4.375%	19,863	19,863	68,338
5/1/2025	29,000	4.375%	19,863	48,863	
11/1/2025		4.375%	19,228	19,228	68,091
5/1/2026	30,000	4.375%	19,228	49,228	
11/1/2026		4.375%	18,572	18,572	67,800
5/1/2027	32,000	4.375%	18,572	50,572	
11/1/2027		4.375%	17,872	17,872	68,444
5/1/2028	33,000	4.375%	17,872	50,872	
11/1/2028		4.375%	17,150	17,150	68,022
5/1/2029	35,000	4.375%	17,150	52,150	

VILLAGE OF PIGEON

SCHEDULE OF SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS SERIES 2004 FEBRUARY 29, 2008

<u>Date</u>	<u>Principal</u>	<u>Interest</u>		<u>Period Total</u>	<u>Fiscal Total</u>
		<u>Rate</u>	<u>Amount</u>		
11/1/2029		4.375%	16,384	16,384	68,534
5/1/2030	36,000	4.375%	16,384	52,384	
11/1/2030		4.375%	15,597	15,597	67,981
5/1/2031	38,000	4.375%	15,597	53,597	
11/1/2031		4.375%	14,766	14,766	68,363
5/1/2032	39,000	4.375%	14,766	53,766	
11/1/2032		4.375%	13,913	13,913	67,678
5/1/2033	41,000	4.375%	13,913	54,913	
11/1/2033		4.375%	13,016	13,016	67,928
5/1/2034	43,000	4.375%	13,016	56,016	
11/1/2034		4.375%	12,075	12,075	68,091
5/1/2035	45,000	4.375%	12,075	57,075	
11/1/2035		4.375%	11,091	11,091	68,166
5/1/2036	47,000	4.375%	11,091	58,091	
11/1/2036		4.375%	10,063	10,063	68,153
5/1/2037	49,000	4.375%	10,063	59,063	
11/1/2037		4.375%	8,991	8,991	68,053
5/1/2038	51,000	4.375%	8,991	59,991	
11/1/2038		4.375%	7,875	7,875	67,866
5/1/2039	54,000	4.375%	7,875	61,875	
11/1/2039		4.375%	6,694	6,694	68,569
5/1/2040	56,000	4.375%	6,694	62,694	
11/1/2040		4.375%	5,469	5,469	68,163
5/1/2041	58,000	4.375%	5,469	63,469	
11/1/2041		4.375%	4,200	4,200	67,669
5/1/2042	61,000	4.375%	4,200	65,200	
11/1/2042		4.375%	2,866	2,866	68,066
5/1/2043	64,000	4.375%	2,866	66,866	
11/1/2043		4.375%	1,466	1,466	68,331
5/1/2044	67,000	4.375%	1,466	68,466	68,466
Total	<u>\$ 1,247,000</u>		<u>\$ 1,271,266</u>	<u>\$ 2,518,266</u>	<u>\$ 2,518,266</u>

The Village of Pigeon Sanitary Sewer Disposal System Revenue Bonds, in the amount of \$1,285,000, were issued on May 27, 2004. The bond proceeds were used to upgrade the existing pump station, remove the accumulated sludge from the existing lagoon, construct a new 10 acre lagoon, and construct related improvements.

VILLAGE OF PIGEON, MICHIGAN
SCHEDULE OF GENERAL OBLIGATION UNLIMITED TAX BONDS
SERIES 2005
FEBRUARY 29, 2008

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>PERIOD TOTAL</u>	<u>FISCAL TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>		
05/01/08	\$ 10,000	4.80%	\$ 49,541	\$ 59,541	
11/01/08			49,301	49,301	\$ 108,842
05/01/09	25,000	4.80%	49,301	74,301	
11/01/09			48,701	48,701	123,002
05/01/10	35,000	4.80%	48,701	83,701	
11/01/10			47,861	47,861	131,562
05/01/11	35,000	4.80%	47,861	82,861	
11/01/11			47,021	47,021	129,882
05/01/12	35,000	4.80%	47,021	82,021	
11/01/12			46,181	46,181	128,202
05/01/13	40,000	4.80%	46,181	86,181	
11/01/13			45,221	45,221	131,402
05/01/14	45,000	4.80%	45,221	90,221	
11/01/14			44,141	44,141	134,362
05/01/15	50,000	4.80%	44,141	94,141	
11/01/15			42,941	42,941	137,082
05/01/16	55,000	4.80%	42,941	97,941	
11/01/16			41,621	41,621	139,562
05/01/17	60,000	4.80%	41,621	101,621	
11/01/17			40,181	40,181	141,802
05/01/18	70,000	4.80%	40,181	110,181	
11/01/18			38,501	38,501	148,682
05/01/19	75,000	4.80%	38,501	113,501	
11/01/19			36,701	36,701	150,202
05/01/20	85,000	4.80%	36,701	121,701	
11/01/20			34,661	34,661	156,362
05/01/21	95,000	4.80%	34,661	129,661	
11/01/21			32,381	32,381	162,042
05/01/22	105,000	4.85%	32,382	137,382	
11/01/22			29,835	29,835	167,217
05/01/23	115,000	4.90%	29,835	144,835	
11/01/23			27,018	27,018	171,853
05/01/24	125,000	5.05%	27,018	152,018	
11/01/24			23,861	23,861	175,879
05/01/25	135,000	5.05%	23,861	158,861	
11/01/25			20,453	20,453	179,314
05/01/26	145,000	5.05%	20,453	165,453	
11/01/26			16,791	16,791	182,244
05/01/27	155,000	5.05%	16,791	171,791	
11/01/27			12,878	12,878	184,669
05/01/28	165,000	5.10%	12,878	177,878	
11/01/28			8,670	8,670	186,548
05/01/29	170,000	5.10%	8,670	178,670	
11/01/29			4,335	4,335	183,005
05/01/30	170,000	5.10%	4,335	174,335	
	<u>\$ 2,000,000</u>		<u>\$ 1,528,052</u>	<u>\$ 3,528,052</u>	<u>\$ 3,528,052</u>

The Village of Pigeon General Obligation Unlimited Tax Bonds, in the amount of \$2,000,000, were issued on April 25, 2005. The bond proceeds were issued for the purpose of acquiring and constructing storm sewer improvements in the Village and related road reconstruction.

VILLAGE OF PIGEON, MICHIGAN
SCHEDULE OF CAPITAL IMPROVEMENT BONDS
SERIES 2006
FEBRUARY 29, 2008

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>PERIOD TOTAL</u>	<u>FISCAL TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>		
06/01/08	\$ 5,000	5.00%	\$ 2,813	\$ 7,813	
12/01/08			2,687	2,687	\$ 10,500
06/01/09	6,000	5.00%	2,688	8,688	
12/01/09			2,537	2,537	11,225
06/01/10	6,000	5.00%	2,538	8,538	
12/01/10			2,387	2,387	10,925
06/01/11	6,000	5.00%	2,388	8,388	
12/01/11			2,237	2,237	10,625
06/01/12	7,000	5.00%	2,238	9,238	
12/01/12			2,062	2,062	11,300
06/01/13	7,000	5.00%	2,063	9,063	
12/01/13			1,887	1,887	10,950
06/01/14	7,000	5.00%	1,888	8,888	
12/01/14			1,712	1,712	10,600
06/01/15	8,000	5.00%	1,713	9,713	
12/01/15			1,512	1,512	11,225
06/01/16	8,000	5.00%	1,513	9,513	
12/01/16			1,312	1,312	10,825
06/01/17	9,000	5.25%	1,313	10,313	
12/01/17			1,076	1,076	11,389
06/01/18	9,000	5.25%	1,076	10,076	
12/01/18			840	840	10,916
06/01/19	10,000	5.25%	840	10,840	
12/01/19			577	577	11,417
06/01/20	11,000	5.25%	577	11,577	
12/01/20			289	289	11,866
06/01/21	11,000	5.25%	289	11,289	11,289
	<u>\$ 110,000</u>		<u>\$ 45,053</u>	<u>\$ 155,053</u>	<u>\$ 155,053</u>

The Village of Pigeon Capital Improvement Bonds in the amount of \$115,000 were issued on August 3, 2006. The bond proceeds were used to construct, improve and replace watermains and other water supply system improvements.



Nietzke & Faupel, PC

Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA

Consultant: Allan W. Nietzke, CPA

Principals: Eugene R. Gascho, COO

Brian V. Hazard, CPA JoAnn E. Lakie, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Pigeon, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pigeon, Michigan, as of and for the year ended February 29, 2008, which collectively comprise the Village of Pigeon, Michigan's basic financial statements and have issued our report thereon dated August 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pigeon, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Pigeon, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Pigeon, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Pigeon, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Pigeon, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Village of Pigeon, Michigan's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. [2008-1 through 2008-6]

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Pigeon, Michigan's internal control.

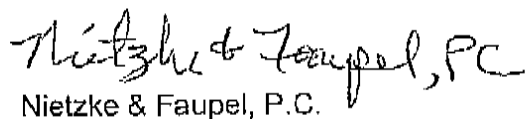
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items [2008-4 through 2008-6] to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Pigeon, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2008-7.

Village of Pigeon, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Village of Pigeon, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Village Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Nietzke & Faupel, P.C.

Pigeon, Michigan
August 19, 2008

**VILLAGE OF PIGEON
SCHEDULE OF FINDINGS
YEAR ENDED FEBRUARY 29, 2008**

FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

2008-1 Signing of checks

Condition: The Village uses dual signature checks that require the signature of the Village Clerk and the Village President. Occasionally, only one of the Village officials is available to sign the checks. When this situation occurs, one of the Village officials signs a group of checks in advance of processing of the cash disbursements in order to allow for the processing of cash disbursements during their absence.

Criteria: Checks should not be signed until after the Village's accounting procedures for cash disbursements are completed and all of the supporting documentation has been gathered and approved for payment.

Effect: This could allow for the misappropriation of Village funds.

Recommendation: One or two alternate Village officials should be authorized to sign checks in the absence of either the Village Clerk or the Village President. This would allow for the Village's normal procedures for processing cash disbursements to take place and would help to ensure that the Village's internal accounting controls will be more effective.

Response: The Village will add the Finance Committee Chairperson as an authorized check signer to their bank accounts as an alternate check signer in the absence of either the Village Clerk or Village President.

2008-2 Approval of cash disbursements

Condition: Currently, the Village processes cash disbursements on a weekly basis. As a result the Village Council approves the cash disbursements at their monthly meeting after the disbursements have been made.

Criteria: According to the State of Michigan Accounting Manual for Local Units of Government, cash disbursements are required to be approved by the legislative body prior to payment. The Village Council may establish a formal policy to authorize limited payments prior to approval to avoid finance or late charges as well as payroll and related payroll tax payments.

Effect: This approval process is an important internal accounting control to help ensure that only authorized disbursements are being made.

Recommendation: The Village should establish procedures where the cash disbursements for the month are processed. After they are processed, the disbursements along with the supporting documentation should be presented to the Village Council for approval. After the disbursements have been approved by the Council, the checks can be signed by the two authorized Village Officials and the payments mailed to the vendors.

**VILLAGE OF PIGEON
SCHEDULE OF FINDINGS
YEAR ENDED FEBRUARY 29, 2008**

FINDINGS – FINANCIAL STATEMENTS AUDIT

Response: The Village plans to change their monthly meeting date to the 3rd Monday of each month in order to allow time for the disbursements to be approved before they are due and paid. The Finance Committee will still review the invoices, the Village Clerk will then produce a disbursement listing for the Council to approve for payment. After the invoices have been approved by the Council, the checks will be printed, signed by the Village Clerk and Village President, and mailed to the payees.

2008-3 Reconciliation of accounts receivable ledger to general ledger control account

Condition: The Village processes its utility billings and collections (water, sewer, and trash charges) using a program separate from the general ledger system. Monthly lists are maintained of unpaid utility charges at the end of each month. However, the list of outstanding utility charges is not reconciled to the general ledger control accounts until the end of the fiscal year.

Criteria: In order to help ensure the accuracy and completeness of the accounts receivable ledger the accounts receivable ledger should be periodically reconciled to the general ledger control account.

Effect: This practice serves as a check on the accuracy of the record keeping process and maintains the accounts receivable on a more timely and accurate basis.

Recommendation: The detail listing of accounts receivable should be reconciled to the general ledger control accounts at the end of each month. Any differences should be investigated and resolved as soon as possible.

Response: The Village plans to purchase the utility billing software module that is compatible with its general ledger software. This way the utility billing software will be integrated with the general ledger system and will enhance the ability to reconcile the monthly accounts receivable subsidiary ledger to the general ledger control account.

MATERIAL WEAKNESSES

2008-4 Reconciliation of bank statements

Condition: During our audit we noted that for a portion of the fiscal year, the bank statement reconciliations did not agree with the cash accounts in the Village's general ledger system. We discovered that bank reconciliations were being performed. However, the step of comparing the bank statement reconciliation amount to the general ledger cash accounts was not taking place.

Criteria: To ensure the accuracy of the Village's cash accounts and to have a strong system of accounting controls over the cash accounts, it is important that the bank reconciliation process take place on a timely basis.

Effect: As a result, there were several transactions that were not recorded in the Village's general ledger system until the end of the fiscal year.

**VILLAGE OF PIGEON
SCHEDULE OF FINDINGS
YEAR ENDED FEBRUARY 29, 2008**

FINDINGS – FINANCIAL STATEMENTS AUDIT

Recommendation: We recommend that all of the bank accounts be reconciled monthly to the general ledger cash accounts and that all reconciling items be promptly investigated and adjusted with adequate explanations.

Response: The Village Clerk has implemented the proper bank reconciliation procedures and will present a report that compares the reconciled bank balances with the Village's general ledger balances to the Finance Committee to be reviewed at their monthly meetings. The report will also be given to the Village Council at their regular monthly meetings.

2008-5 Preparation of year end closing procedures

Condition: This year, as in the past, we assisted the accounting staff with the basic year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. This also included the preparation of several material year end adjusting entries that were necessary to keep the financial statements from being materially misstated.

Criteria: The accounting staff should be able to perform the year end closing procedures and prepare the appropriate year end closing entries in order to ensure that the year end financial statements are not materially misstated. Also, the year end closing procedures should be supervised and reviewed by Village officials with an adequate knowledge of the Village's activities during the fiscal year.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: With adequate training, the accounting staff should become familiar with the necessary procedures to complete the year end accounting. In time, the condition of the accounting records should become better and less assistance will be required in this area by the auditors. We suggest that the Village provide its accounting staff with the necessary training to ensure they are able to efficiently prepare the year end accounting procedures for the audit.

Response: The Village plans to hire a local CPA as an outside consultant to assist the Village Clerk in performing the year end closing procedures with the hope that over time the Clerk will learn to perform these procedures without assistance. The Village will also search for any available training of governmental accounting for the Village Clerk to attend.

2008-6 Preparation of the GAAP basis financial statements

Condition: Along with assisting with the year end closing procedures to the Village's accounting records, we also assisted the Village by preparing the annual financial statements (including required disclosures) of the Village prepared in accordance with generally accepted accounting principles.

Criteria: The responsibility for the Village's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the Village. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

**VILLAGE OF PIGEON
SCHEDULE OF FINDINGS
YEAR ENDED FEBRUARY 29, 2008**

FINDINGS – FINANCIAL STATEMENTS AUDIT

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: We recommend that the Village acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

Response: As part of the year end closing procedures, the CPA outside consultant will also assist in the preparation of the GAAP basis financial statements.

COMPLIANCE

2008-7 Compliance with bond reserves

Condition: Currently the Village has not maintained repair and replacement reserve funds at the level required by the USDA Rural Development bonds issued to the Village to finance the storm sewer replacement project.

Criteria: The bond agreement with the USDA Rural Development requires specific amounts of funds that are to be set aside for repairs and improvements to the system.

Effect: The funds will not be available if the storm sewer system needs to be repaired or substantial improvements made to the system.

Recommendation: Establish separate bank accounts for the reserve funds and begin funding the reserves as soon as possible.

Response: A plan has been agreed to by the Village and the USDA Rural Development where the Village can become compliant with the bond reserves by February 2009. The Village has established the required bank accounts needed to meet the requirements of the USDA bonds and has provided in the 2008-2009 budget the amounts necessary to fund the reserve accounts to the proper levels.